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Prime's opportunity

Calif.-based chain is growing fast, but has to overcome 'controversial' image

Prime Healthcare Services is on a buying spree.

The company's specialty is overhauling distressed hospitals, and it has an “aggressive” expansion plan for 2013, said Mike Sarian, president of operations.



Since December 2011, the Ontario, Calif.-based company has completed six acquisitions, all outside its home state, where it owns 14 hospitals. It is also in contract to buy Landmark Medical Center, Woonsocket, R.I., after that hospital's negotiations fell apart with Steward Health Care System, Boston.

“About a year ago, we started a more nationwide acquisition strategy,” Sarian said, declining to disclose the company's mergers and acquisition budget for next year. However, when asked how many deals it expects to sign, he laughed and referred to this year, saying, “Hopefully, it's more than seven.”

At a new facility, Prime installs medical directors to focus on quality of care, implements staff training programs and then holds facilities to task to raise standards on par with its other hospitals.

As a result, once-struggling facilities have now earned a number of quality awards from organizations including the Joint Commission, the American Heart Association and the Leapfrog Group.

But Prime is no stranger to bad press, with local media outlets describing the company entering their market as “controversial,” “notorious” and having a “troubled track record.”

The company in 2010 faced an investigation from the California attorney general over accusations of “upcoding” medical bills and has been questioned by state and federal regulators about unusually high rates of septicemia, or blood infections, among its patients, according to published reports. It also has been embroiled in a legal battle with the Service Employees International Union and Kaiser Permanente, charging them with conspiring to keep it out of the market.

But Sarian denies that its public image has created obstacles to closing deals. “Every one of our hospitals is successful and profitable,” he said. “We provide jobs to the community. In the hospitals that I’ve visited myself, the community wants the hospital to succeed ... The community wants Prime onboard.”

All for-profit chains scout buys among struggling hospitals; if facilities didn't have a need for capital, they'd be less likely to hand over the ownership reins. However, Prime has made the turnaround space its business model and core specialty.

“Prime is one of the companies that's very, very good at turning around distressed hospitals,” said Joshua Nemzoff, president of M&A consulting firm Nemzoff & Co.

“In their scope, they are pretty unique,” said Scott Victor, an investment banker at SSG Capital Advisors who helped sell Lower Bucks Hospital to Prime. “They're the only ones that do it on such a large scale.”

Lower Bucks Hospital operates in the economically depressed area of Bristol, Pa., treating a high number of indigent and Medicaid patients. It filed for bankruptcy in 2010, and its financial performance did not improve when it emerged two years later, Victor said.

Victor noted that while the hospital had approached every logical strategic buyer, none had wanted to keep Lower Bucks open as a full acute-care facility except Prime.

“Prime was the only offer on the table and it was a good offer,” Victor said. “It was a really great outcome for the hospital and the community.”

Prime also takes a tactic more common outside of the healthcare industry, providing loans to struggling hospitals. For Hawaii Medical Center, which had two hospitals on Oahu, for instance, it provided the debtor-in-possession financing to keep the hospitals afloat.

In a bankruptcy, “the DIP lender is sitting in the first secured position, which is the best position to be in,” said Lars Parkin, a senior consultant at Scouler & Co. and financial adviser to Hawaii Medical Center. “There's relatively no risk involved.”

Parkin added that the DIP lender also sets itself up to be the “stalking horse bidder,” which sets the base sale price. “In the hospital industry, this may be seen as unusual,” he said. “In the bankruptcy world, very usual.”

Sarian said that many of the hospitals Prime pursues are so deprived of capital that they need immediate financing just to make it to the deal closing. Yet he added that the company structures deals based on the hospital's unique needs. "We don't have a cookie-cutter approach."

Not every takeover that Prime has pursued has been successful. In the past year, it has seen deals unravel in Hawaii, New Jersey and its home state of California, where its bid for Victor Valley Community Hospital, Victorville, failed to get approval from the attorney general.

Prime is particularly unpopular with unions. At Christ Hospital, Jersey City, N.J., a local chapter of Health Professionals and Allied Employees was one of the most vocal opponents to selling the ailing facility to Prime. (Another buyer has since won court approval to purchase it.)

In Hawaii, its deal for Hawaii Medical Center fell apart after St. Francis Healthcare System, Honolulu, which had a significant lien on the assets, blocked the bid.

"All of the healthcare providers in Hawaii were alarmed by Prime coming into the market," Parkin said, who is now winding down the estate after Hawaii Medical Center shut its doors.

"This is a case study in a certain way," Parkin said, of how Prime has "fumbled from a public relations standpoint."

Nemzoff, who was tasked in January 2011 with helping to find a buyer for Landmark, acknowledged that Prime has been the target of what he described as "a bit of a smear campaign by the SEIU," but said there's no weight to the allegations. "It's a public relations issue, but when you look behind the accusations that have been made, they're completely baseless."

Sarian said that Prime often gets calls asking it to take over a hospital. "Keeping the hospital alive—that's a vital service," he said.

Like most of its buys, Pampa (Texas) Regional Medical Center had a dire need for capital.

Administrator Brad Morse, who arrived at the hospital on the day of the acquisition, noted that Prime enabled it to hire much-needed doctors, introduce new services and buy equipment.

"They were able to give me some tools to work with that you typically don't have in small towns," said Morse, who was hired from LifePoint Hospitals' Meadowview Regional Medical Center, Maysville, Ky. "And it's all done through the eyes of a physician. It's obviously an investment for them, but at the same time, they're not looking at a budget for me to make each month."

Morse acknowledged that Prime's arrival was not without controversy.

"Obviously, there was a bit of bad press," he said. But the deal "pretty much sold itself" when Pampa Regional was able to recruit a new cardiologist, surgeon and nuclear medicine specialist to the town of 17,000 people, Morse said. "If Prime hadn't stepped in, I don't see how this hospital could have stayed open."